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ANDREA "ANDY" BENNETT  
STATE AUDITOR



MONTANA STATE UNIVERSITY

LIMITED SCOPE  
OPERATIONAL AUDIT  
CONTINGENT REVOLVING FUNDS

Fiscal Year Ended June 30, 1988

PLEASE RETURN





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STATE AUDITOR  
STATE OF MONTANA



*Andrea "Andy" Bennett*  
STATE AUDITOR

COMMISSIONER OF INSURANCE  
COMMISSIONER OF SECURITIES

February 22, 1989

Mr. James L. Isch  
Director of Administration  
Montana State University  
Montana Hall  
Bozeman, MT 59717

Dear Mr. Isch:

This our report on the Limited Scope Operational Audit performed on the contingent revolving funds at Montana State University. This report contains five recommendations aimed at improving management practices and controls relating to the contingent revolving funds at Montana State University.

We would like to thank the university management and staff for their cooperation and assistance provided during the audit.

With best personal regards, I am

Very truly yours,

Andrea "Andy" Bennett  
State Auditor

AAB/jlf(425)



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## SUMMARY OF AUDIT RECOMMENDATIONS

### RECOMMENDATION #1:

WE RECOMMEND THE UNIVERSITY ESTABLISH A PROCEDURE FOR DEPARTMENTS TO PROVIDE THE BUSINESS OFFICE WITH A WRITTEN JUSTIFICATION OF THE NEED FOR A SPECIAL CHECK ON THE VENDOR PAYMENT AUTHORIZATION FORM.

IMPLEMENTATION OF THIS RECOMMENDATION SHOULD REDUCE INQUIRIES REQUIRED BY THE BUSINESS OFFICE AND LIMIT THE ACTUAL NUMBER OF SPECIAL CHECK REQUESTS MADE BY DEPARTMENTS.

Montana State University Response: Concur. See page 20

### RECOMMENDATION #2:

WE RECOMMEND THE UNIVERSITY COMPLY WITH ITS ESTABLISHED POLICY BY ATTACHING THE BUSINESS OFFICE COPY OF THE TRAVEL AUTHORIZATION FORM TO THE EXPENSE VOUCHER WHEN IT IS PROCESSED AS PART OF THE SUPPORT DOCUMENTATION TO TRAVEL CLAIMS.

Montana State University Response: Concur. See page 20





RECOMMENDATION #3:

WE RECOMMEND THAT THE UNIVERSITY ADHERE TO ITS OWN POLICY THAT ADDITIONAL TRAVEL ADVANCES BE DENIED FOR EMPLOYEES WHO HAVE OUTSTANDING TRAVEL ADVANCES. WE BELIEVE THIS POLICY WILL IMPROVE COMPLIANCE WITH THE UNIVERSITY'S TEN DAY FILING REQUIREMENT. WE FURTHER BELIEVE THAT IMPLEMENTATION WILL SAVE PERSONAL SERVICE TIME AND MONEY FOR THE BUSINESS OFFICE.

Montana State University Response: Concur. See page 20

RECOMMENDATION #4:

WE RECOMMEND THAT THE UNIVERSITY COMPLY WITH ITS OWN POLICY REQUIRING SUPPORT DOCUMENTATION FOR ALL CLAIMS PROCESSED, INCLUDING THOSE CLAIMS PROCESSED THROUGH THE CONTINGENT REVOLVING ACCOUNT.

Montana State University Response: Concur. See page 21

RECOMMENDATION #5:

WE RECOMMEND THE UNIVERSITY COMPLY WITH ITS OWN POLICY GOVERNING THE USE OF THE CONTINGENT REVOLVING FUND.

Montana State University Response: Concur. See page 21



## INTRODUCTION:

The State Auditor's Office conducted a review of Montana State University's use of their contingent revolving funds established through the Montana Department of Administration in accordance with Section 17-2-201, MCA. The period under examination was the fiscal year ended June 30, 1988.

The objectives of our audit were:

1. to determine the compliance with state laws and regulations governing non-treasury cash accounts;
2. evaluation of the efficiency of the use of the checking account system;
3. evaluation of internal controls;
4. determine needs of the university that might be incorporated into the new state warrant writing system; and
5. determine if the authorized balances for the accounts are appropriate.

## SCOPE:

Our audit was conducted in accordance with generally accepted governmental auditing standards for operational audits, and accordingly included such tests of university records and such other auditing procedures as we considered necessary in the circumstances. This audit did not include an examination of the financial schedules of Montana State University, and we therefore express no opinion thereon.



This report is intended solely for the use of the management staff of Montana State University, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, when accepted by Montana State University, is a matter of public record.

We reviewed the use of the non-treasury cash revolving contingency funds maintained by Montana State University to determine the extent of use and compliance with regulations established by the Department of Administration for the maintenance of cash accounts outside the state treasury. We also examined the compliance with university operating policy established to control the uses of the contingent revolving account.

We examined the operational aspects of the business office concerning the use of the non-treasury cash accounts for the purpose of making recommendations to improve the system. As part of our review conducted in the business office, we examined a sample of claims presented to the supervisor of the business office for payment through the contingent revolving account.

Section 17-2-201, MCA, provides authority to the Montana Department of Administration to authorize the establishment of non-treasury cash contingent revolving accounts for payment of demands requiring immediate payment. Examples of such expenditures are: emergency travel advances, pre-payment of subscription and book orders, postage, freight charges, and invoices allowing a discount if paid within a specified period of time, too short to be paid through the state warrant system.



Section 17-2-201, MCA, also provides the Department of Administration with the authority to promulgate regulations for the establishment and use of the contingent revolving funds. The Department of Administration has developed regulations for the use of the revolving funds. They are found in the Montana Operations Manual, Chapter 2-1900.

Montana State University has established contingent revolving accounts at Bozeman banks with an authorized fund balance of \$275,000 as of November, 1987. The university has a written internal operating policy governing the use of the contingent revolving fund. It should be remembered when considering the contents of this report that the use of the contingent revolving fund involve the Extension Service and the Montana Agricultural Experiment Station in addition to Montana State University.

#### BACKGROUND:

Montana State University was founded on February 15, 1893, as the Agricultural College of Montana. Later the school was renamed Montana State College and became Montana State University on July 1, 1965.

The university is a land-grant institution in accordance with provisions of the Morrill Act of 1862, and therefore derives part of its financial support from land-grant income in addition to student tuition, state appropriations and grants.

The university president is responsible for the day-to-day operations of the university and is accountable to the Montana





Board of Regents of Higher Education through the Commissioner of Higher Education. The director of administration is responsible for providing the institution with accounting services, computer operations, payroll, budget preparation, personnel and physical plant services. An organizational chart of the administration division may be found at the end of this report marked as exhibit I.

#### GENERAL OPERATIONS OF THE CONTINGENT REVOLVING FUND.

The contingent revolving account is maintained at a local Bozeman bank. Checks are drawn on the account only by the university business office. Departments and offices may request disbursements from this account by noting on the vendor payment authorization form, (exhibit II), "SPECIAL CHECK". In addition to paying obligations allowed by university policy, checks are generated to distribute various forms of student financial aid. During the year, the university requests periodic reimbursements from the State Treasury. The university personnel told us that temporary increases are requested from the Department of Administration at fiscal year end. These increases are necessary because reimbursements are not available from the Treasury due to fiscal year end closing. When we checked with the Treasury and Department of Administration, we found that even though fiscal year end closing activities are taking place, warrants for reimbursements may be made. The university returns any increase received to the treasury after the need has passed.



The business office has a designated individual to process "special check" requests. The person responsible for processing special checks is to review each request to determine if the request complies with established policy. The employee may also inquire of the requesting department to elicit additional justification for the issuance of a check from the contingent revolving account if the request appears not to comply with university and state policy. ( The "special checks" process is illustrated in a flow chart on page 18.)

During our audit, we asked the employee responsible for processing the special checks about the amount of time required to question departments as to the need for a special check to be issued. The business office supervisor indicated that some of the requests received require telephone inquiry to determine the need to issue a contingency fund check. The employee responsible for processing special checks has additional work responsibilities. We believe the business office should require departments to provide adequate written justification on the vendor payment authorization for a special check with each request.

RECOMMENDATION #1:

WE RECOMMEND THE UNIVERSITY ESTABLISH A PROCEDURE FOR DEPARTMENTS TO PROVIDE THE BUSINESS OFFICE WITH A WRITTEN JUSTIFICATION OF THE NEED FOR A SPECIAL CHECK ON THE VENDOR PAYMENT AUTHORIZATION FORM. IMPLEMENTATION OF THIS RECOMMENDATION SHOULD REDUCE INQUIRIES REQUIRED BY THE BUSINESS OFFICE AND LIMIT



THE ACTUAL NUMBER OF SPECIAL CHECK REQUESTS MADE BY  
DEPARTMENTS.

INTERNAL CONTROLS:

The management of the university is responsible for developing, implementing and maintaining a system of internal controls that efficiently and effectively ensure that assets are properly safeguarded against unauthorized use, transactions are processed in accordance within the policy guidelines established by management, and transactions are recorded in such a manner so as to permit university financial schedules to be prepared in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal controls, errors or irregularities may nonetheless occur and not be detected.

We reviewed the internal controls over the contingent revolving funds. As part of our review, we traced the process of transactions from the time a special check request is received by the business office until it has been issued to a vendor or the requesting department. The custodian and preparer of the checks may not sign checks. Accounting entries are made by other personnel in the accounts payable section. Bank statements are received by personnel independent of the fund.

During our audit, nothing came to our attention in the areas examined that would lead us to believe that material weaknesses exist in control procedures not examined.



## TRAVEL ADVANCES:

Travel advances constitute one of the larger classes of transactions processed through the contingent revolving account. The university has a written travel policy found in the Business Procedures Manual. The university also addresses travel as it applies to payments from the contingent revolving account in its Business Procedures Manual. University policy states that expenditures from the contingent revolving account may be made for unanticipated travel. In our opinion, many of the travel advances and some of the related transactions currently processed through the contingent revolving account could be processed through the state warrant writing system with proper planning on the part of university employees traveling.

In our three month, dollar volume sample of transactions processed through the contingent revolving account, 28 per cent of the transactions were travel related. The checks issued were either to purchase airline tickets or to pay advance registrations for conferences.

In five of seven transactions involving acquisition of airline tickets, we were unable to determine if authorization had been received prior to the purchase of the tickets. University policy requires prior authorization before applications for advances can be processed.





RECOMMENDATION #2:

WE RECOMMEND THE UNIVERSITY COMPLY WITH ITS ESTABLISHED POLICY BY ATTACHING THE BUSINESS OFFICE COPY OF THE TRAVEL AUTHORIZATION FORM TO THE EXPENSE VOUCHER WHEN IT IS PROCESSED AS PART OF THE SUPPORT DOCUMENTATION TO TRAVEL CLAIMS.

ACQUISITION OF COMMERCIAL TRANSPORTATION:

University operating policy governing travel provides for numerous methods for employees to purchase tickets for commercial transportation. Employees may purchase commercial transportation tickets via the use of a personal credit card, state transportation purchase order for off-campus employees, or the employee may request a travel advance and include the cost of the ticket in the request. In the case of the last option, the business office may be requested to issue two checks. One for the ticket and one for the actual advance. This would occur in instances where the purchase of the ticket was required to be made more than ten days before the actual trip was to take place. University policy states that no personal cash travel advance will be issued earlier than ten days prior to actual travel.

We were told by university officials that an internal audit conducted by the university two years ago revealed instances of abuse of the state transportation purchase orders. To prevent abuse of the purchase order system, the



university discontinued its use. A traveler must now submit an authorized travel justification form with a travel advance request before the Business Office will process a travel advance to purchase travel. A copy of the travel justification is retained by the Business Office for all out-of-state travel.

#### ADVANCE PURCHASE OF AIRLINE TICKETS:

Since airline deregulation took place in the early 1980's, most airlines have been offering a variety of reduced airfares that may be obtained contingent on compliance with restrictions on the traveler. Frequently, one of the restrictions imposed by the airlines is that no refund will be given once a ticket has been purchased.

We noted during the audit that the athletic departments made an advance purchase of airline tickets for the football team's 1988 season travel. When university personnel were asked about the practice of the advance purchase, they stated that beginning with the 1988 basketball season, the Athletic Department will be putting team travel out to bid. We commend the university for making every effort to save money on travel. We found no evidence that problems exist with current practices concerning advanced purchase of tickets.



## REPAYMENT OF TRAVEL ADVANCES:

During our audit, we reviewed a file of outstanding travel advances. According to the records, six out of seven advances reviewed did not comply with university policy that travel expense vouchers with supporting documentation be filed with the business office within ten (10) days after a trip was completed. Table I lists the travel advances we reviewed that were made between January and March of 1988. These advances were outstanding as of June 20, 1988.

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TABLE I

<u>DATE OF</u> <u>TRAVEL ADVANCE</u>	<u>AMOUNT OF</u> <u>ADVANCE</u>	<u>DATES OF</u> <u>TRAVEL</u>
1/01/05/88	\$ 170.00	07/03/88 - 07/09/88
01/07/88	125.00	02/05/88 - 02/08/88
01/18/88	504.00	02/17/88 - 02/21/88
01/19/88	396.00	03/07/88 - 03/09/88
02/10/88	700.92	03/22/88 - 03/23/88
03/04/88	1540.00	03/23/88 - 04/20/88
<u>03/28/88</u>	<u>347.00</u>	<u>04/05/88 - 04/08/88</u>

Source: Compiled by the State Auditor from university records.

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1/ This was outstanding at June 20 since the actual travel was not to take place until July. This was done to take advantage of an early payment discount.



When travel advances are left uncleared for long periods of time, the risk of losing supporting documentation required for travel claims, increases. Further, employees of the business office are required to contact employees with outstanding travel advances in order to clear the outstanding file. In some cases, letters are required requesting supporting documentation and final expense vouchers. Employees in the business office told us that often several letters and phone calls have been necessary before some employees submit the required paperwork.

RECOMMENDATION #3:

WE RECOMMEND THAT THE UNIVERSITY ADHERE TO ITS OWN POLICY THAT ADDITIONAL TRAVEL ADVANCES BE DENIED FOR EMPLOYEES WHO HAVE OUTSTANDING TRAVEL ADVANCES. WE BELIEVE THIS POLICY WILL IMPROVE COMPLIANCE WITH THE UNIVERSITY'S TEN DAY FILING REQUIREMENT. WE FURTHER BELIEVE THAT IMPLEMENTATION WILL SAVE PERSONAL SERVICE TIME AND MONEY FOR THE BUSINESS OFFICE.

SUPPORT DOCUMENTATION FOR SPECIAL CHECK CLAIMS:

We noted several instances in our sample of claims processed through the contingent revolving account that support





documentation was not attached to the vendor payment authorization form. Most of the cases where support documentation was not attached, were travel advance payments for the purchase of airline tickets.

We also noted one instance where a payment was made to the Montana State University Foundation for \$164,501.51 without supporting documentation. In our opinion, expenditures for such large amounts probably could be made through the state warrant system. However, it is understandable that in a few cases processing through the state warrant system may not be possible. In those instances, a document should be attached to the vendor payment authorization substantiating the expenditure through the contingent revolving account.

#### RECOMMENDATION #4:

WE RECOMMEND THAT THE UNIVERSITY COMPLY WITH ITS OWN POLICY REQUIRING SUPPORT DOCUMENTATION FOR ALL CLAIMS PROCESSED, INCLUDING THOSE CLAIMS PROCESSED THROUGH THE CONTINGENT REVOLVING ACCOUNT.

#### PAYMENTS MADE BY RESIDENCE HALL ASSOCIATIONS:

This section of our report pertains to student Residence Hall Associations and only indirectly to the administrative operations of Montana State University.

Some payments made by the student Residence Hall



Associations are processed through the contingent revolving account. Our audit work revealed instances involving payments to paper carriers for delivery of various newspapers to dormitories. We reviewed a sample of checks drawn on the contingent revolving account and returned by the bank for various reasons. Two of the checks in our sample of 50 cancelled checks were returned because of an improper endorsement. Two checks were requested to pay for monthly subscriptions to The Billings Gazette for the months of January and February 1988. The checks were returned by the bank because of improper endorsement. The checks had been endorsed by the paper carrier rather than the payee.

We emphasize that this section of the report is included primarily for the benefit of the student Residence Hall Association of the Montana State University and not specifically to Montana State University.

#### CONCLUDING COMMENTS:

Our audit of the contingent revolving fund included an examination of the reimbursements from the State Treasury to the revolving account. The total reimbursements made to the fund were \$14,882,308. The reimbursements from the State Treasury through the State Auditor's Office by month may be found in table II of this report, labeled as Exhibit III.

The university processed \$7,283,826 in federal student



financial aid. The remaining amount, \$7,598,482 represents expenditures in day-to-day operations of Montana State University, the Agricultural Experiment Station, and the Extension Service.

The financial compliance audit report issued by the Legislative Auditor for the two fiscal years ended June 30, 1987, found that the University was using the contingent revolving fund for other than those purposes specified by state policy. The Legislative Auditor recommended the University restrict use of the contingent revolving fund to transactions specified in state policy. The State Auditor's Office concurs with the recommendation made by the Legislative Auditor. We are concerned that extensive use of the contingent revolving fund is causing the state to lose revenue from investments. The average return on investments through the Short-term Investment Pool was 7.16% for the fiscal year ended June 30, 1988.

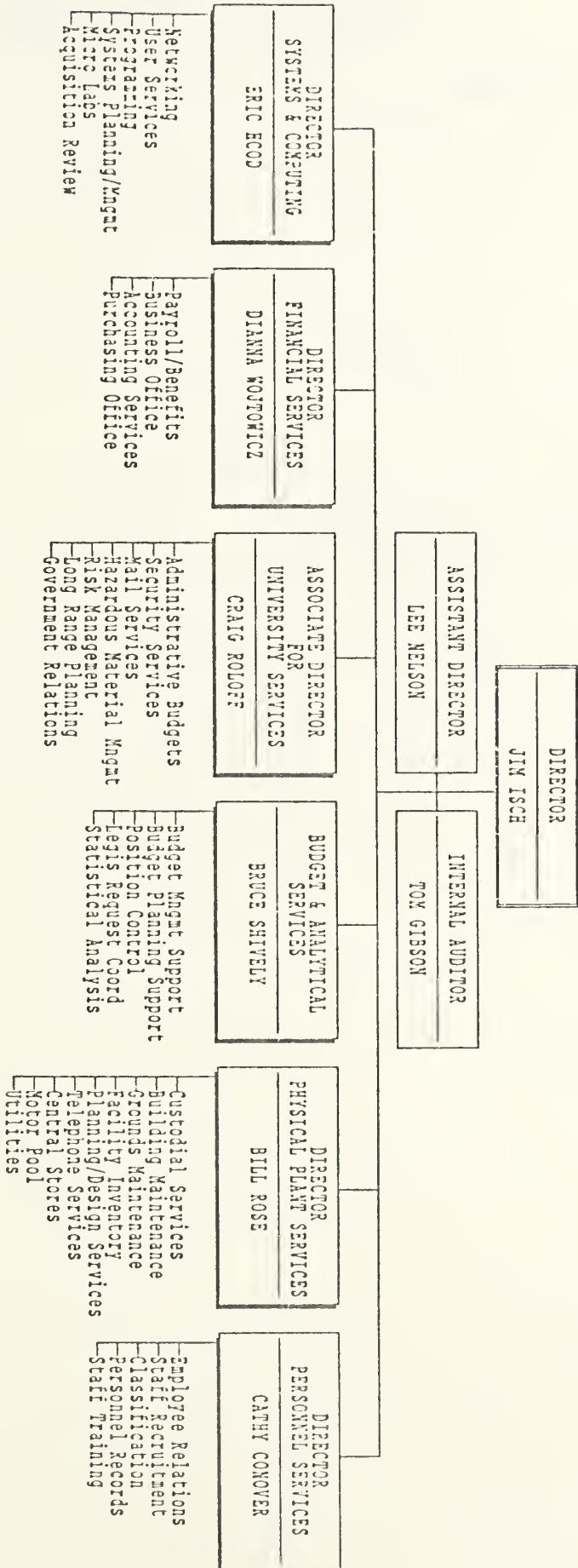
RECOMMENDATION #5:

WE RECOMMEND THE UNIVERSITY COMPLY WITH ITS OWN  
POLICY GOVERNING THE USE OF THE CONTINGENT REVOLVING  
FUND.

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MONTANA STATE UNIVERSITY  
ADMINISTRATION DIVISION  
Chart of  
Functional Organization







VENDOR PAYMENT AUTHORIZATION  
Montana State University  
Bozeman, MT 59717

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Date \_\_\_\_\_

[illegible]

\* Partial/Final

Remittance Information:	

-16-



# EXHIBIT III

## SCHEDULE OF REIMBURSEMENTS MONTANA STATE UNIVERSITY CONTINGENT REVOLVING FUND FOR FISCAL YEAR ENDED JUNE 30, 1988

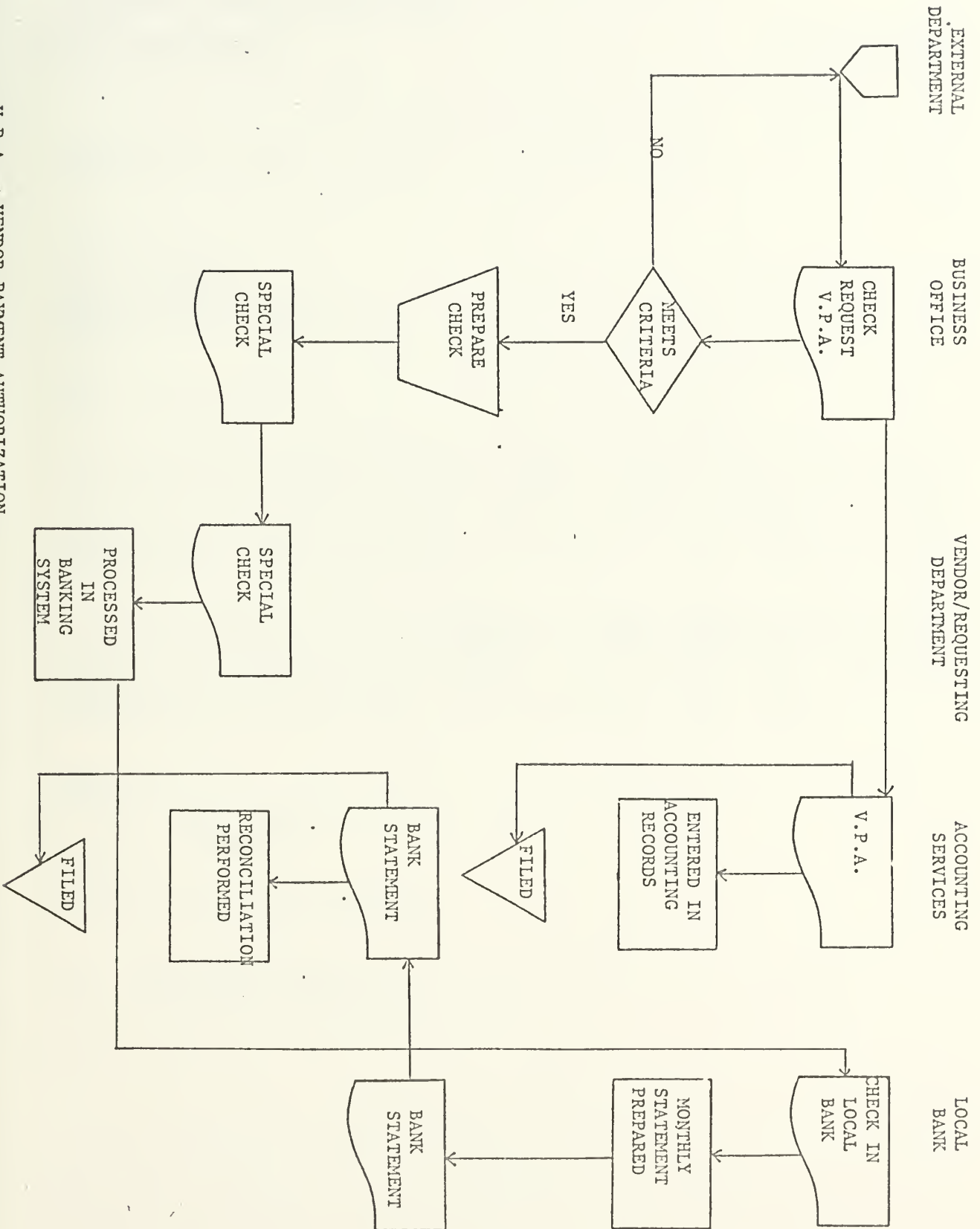
Month	Amount of Reimbursement
July 1987	\$ 435,479.95
August 1987	934,172.27
September 1987	2,344,568.66
October 1987	1,701,181.14
November 1987	703,899.66
December 1987	2,806,924.98
January 1988	761,039.46
February 1988	476,078.27
March 1988	2,570,167.23
April 1988	840,004.47
May 1988	526,728.22
June 1988	<u>782,063.76</u>
TOTAL REIMBURSEMENTS	<u>\$14,882,308.07</u>

Source: Statewide Budgeting and Accounting System  
Listing of warrants issued by the State Auditor

JL/blm(372)



SPECIAL CHECK PROCESS



V.P.A. = VENDOR PAYMENT AUTHORIZATION





Montana State University  
Bozeman, Montana 59717-0001

Director of Administration

Telephone (406) 994-4361

February 14, 1989

Andrea Bennett  
State Auditor  
Sam Mitchell Building  
Helena, MT 59620

Dear Ms. Bennett:

We have received your final draft of the audit report detailing the findings of your review of our use of the out-of-Treasury contingent revolving funds for the fiscal year ended June 30, 1988. Attached you will find our response to the audit report and to each of the specific audit recommendations contained in the audit report.

The evidence of our sound and responsible financial and business management is contained in the audit report, and is reflected by the limited number and magnitude of the audit recommendations contained in the report. We look forward to receiving the final copy of the completed audit report.

Sincerely,

A handwritten signature in dark ink, appearing to read 'James L. Isch', written over a horizontal line.

James L. Isch  
Director of Administration

cc: President Tietz  
Commissioner's Office





RECOMMENDATION NO. 1 -

WE RECOMMEND THE UNIVERSITY ESTABLISH A PROCEDURE FOR DEPARTMENTS TO PROVIDE THE BUSINESS OFFICE WITH A WRITTEN JUSTIFICATION OF THE NEED FOR A SPECIAL CHECK ON THE VENDOR PAYMENT AUTHORIZATION FORM.

RESPONSE NO. 1 -

WE CONCUR. WHEN IT WAS BROUGHT TO OUR ATTENTION BY THE LEGISLATIVE AUDITOR IN EARLY 1988 THAT SPECIAL CHECKS WERE BEING WRITTEN FOR USES NOT ALLOWED BY STATE POLICY, WE BEGAN TO IMMEDIATELY TIGHTEN USE THROUGH A CLOSER SCRUTINY OF THE REQUESTS. WE ARE IMPLEMENTING A POLICY MAKING IT MANDATORY THAT JUSTIFICATION FOR A SPECIAL CHECK BE CLEARLY SET FORTH BY THE REQUESTOR. THE VENDOR PAYMENT AUTHORIZATION FORM HAS BEEN REVISED TO ACCOMMODATE THIS ADDITIONAL INFORMATION NEED.

RECOMMENDATION NO. 2 -

WE RECOMMEND THE UNIVERSITY COMPLY WITH ITS ESTABLISHED POLICY BY ATTACHING THE BUSINESS OFFICE COPY OF THE TRAVEL AUTHORIZATION FORM TO THE EXPENSE VOUCHER WHEN IT IS PROCESSED AS PART OF THE SUPPORT DOCUMENTATION TO TRAVEL CLAIMS.

RESPONSE NO. 2 -

WE CONCUR. THE PROCEDURE OF ATTACHING THE OUT-OF-STATE TRAVEL JUSTIFICATION FORM TO THE FINAL TRAVEL CLAIM HAS BEEN IN EFFECT FOR MANY YEARS IN ORDER TO PROVIDE A COMPLETE AND ACCURATE AUDIT TRAIL FOR TRAVEL CLAIMS.

RECOMMENDATION NO. 3 -

WE RECOMMEND THAT THE UNIVERSITY ADHERE TO ITS OWN POLICY THAT ADDITIONAL TRAVEL ADVANCES BE DENIED FOR EMPLOYEES WHO HAVE OUTSTANDING TRAVEL ADVANCES.

RESPONSE NO. 3 -

WE CONCUR. ALTHOUGH TRAVEL ADVANCES OFTEN INVOLVE THE USE OF RESEARCH FUNDS RATHER THAN STATE FUNDS, WE STILL ATTEMPT TO CLEAR OUTSTANDING TRAVEL ADVANCES IN A TIMELY MANNER. STAFF REDUCTIONS IN THE BUSINESS OFFICE THE PAST SEVERAL YEARS HAVE FORCED US TO FOCUS OUR PRIORITIES ON OTHER ISSUES OF A MORE URGENT NATURE.



RECOMMENDATION NO. 4 -

WE RECOMMEND THAT THE UNIVERSITY COMPLY WITH ITS OWN POLICY REQUIRING SUPPORT DOCUMENTATION FOR ALL CLAIMS PROCESSED, INCLUDING THOSE CLAIMS PROCESSED THROUGH THE CONTINGENT REVOLVING ACCOUNT.

RESPONSE NO. 4 -

WE CONCUR. UNFORTUNATELY, WITH THE LARGE VOLUME OF TRANSACTIONS PROCESSED ON A MONTHLY BASIS BY THE BUSINESS OFFICE, CLAIMS DO OCCASIONALLY SLIP THROUGH PROCESSING WITHOUT THE PROPER SUPPORTING DOCUMENTATION.

RECOMMENDATION NO. 5 -

WE RECOMMEND THE UNIVERSITY COMPLY WITH ITS OWN POLICY GOVERNING THE USE OF THE CONTINGENT REVOLVING FUND.

RESPONSE NO. 5 -

WE CONCUR. PERIODIC MEMOS HAVE BEEN DISTRIBUTED ON CAMPUS REMINDING ALL DEPARTMENTS OF THE RESTRICTIONS ON THE USE OF THE CONTINGENT REVOLVING FUND, AND THE BUSINESS OFFICE STAFF ARE REGULARLY REVIEWING THE SPECIAL CHECK REQUESTS TO ENSURE THAT THEY COMPLY WITH STATE POLICIES. A RECENT REVIEW COMPARING USE OF THE CONTINGENT REVOLVING FUND FROM JULY THROUGH NOVEMBER IN FY88 WITH JULY THROUGH NOVEMBER IN FY89 REVEALED A SIGNIFICANT OVERALL REDUCTION IN THE NUMBER OF SPECIAL CHECKS PROCESSED ONCE THE NEW IA SYSTEM SOFTWARE WAS INSTALLED AND RUNNING.





